

**REPORT OF THE AUDIT OF THE
LESLIE COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2006**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Kenneth R. Witt, Former Leslie County Judge/Executive

Honorable Jimmy Sizemore, Leslie County Judge/Executive

Members of the Leslie County Fiscal Court

The enclosed report prepared by Percy and Gray, PSC, Certified Public Accountants, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Leslie County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements.

We engaged Percy and Gray, PSC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Percy and Gray, PSC evaluated the Leslie County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
LESLIE COUNTY FISCAL COURT**

June 30, 2006

Peercy and Gray PSC was engaged to audit the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Leslie County, Kentucky for the purpose of forming an opinion and have disclaimed an opinion on the financial statements. In accordance with OMB Circular A-133, we have also issued a disclaimer of opinion on the compliance requirements that are applicable to Leslie County's major federal program, Public Assistance Grants (CFDA #97.036), for the year ended June 30, 2006.

Based on our assessment of fraud risk, we determined the risk for fraud to be too high and we were unable to apply other procedures to overcome this fraud risk. In addition, the Fiscal Court had serious weaknesses in the design and operation of its internal control procedures and accounting functions. Furthermore, management elected to override the internal control procedures that were in place. We were unable to apply audit procedures to test for appropriate compliance with statutory, contractual, and administrative regulations as well as with federal grant agreements, Governor's Office for Local Development (GOLD) requirements, and county administrative code requirements. Because of this, we were also unable to determine if ethics violations occurred. In addition, we were not able to access certain fiscal court records needed to adequately conduct our procedures due to the county's failure to provide certain requested documentation

Report Comments:

- | | |
|---------|--|
| 2006-01 | Fiscal Court Should Improve Policies And Procedures Related To The Schedule Of Expenditures Of Federal Awards |
| 2006-02 | The Fiscal Court Should Maintain Adequate Documentation For All Expenditures And Attach This Documentation To Checks Presented To The County Judge/Executive And County Treasurer For Signatures |
| 2006-03 | Fiscal Court Employees Used The Former Judge/Executive's Credit Card |
| 2006-04 | Fiscal Court Did Not Provide Adequate Oversight Or Monitoring Of The Code Of Ethics |
| 2006-05 | Fiscal Court Should Approve Employee Pay Rates, Maintain Adequate Documentation For All Personnel Files, And Adjust Payroll Withholdings Timely |
| 2006-06 | The Fiscal Court Did Not Provide Adequate Oversight Or Monitoring Of Financial Activities |
| 2006-07 | The Fiscal Court Did Not Maintain Proper Documentation For Capital Assets |
| 2006-08 | Fiscal Court Did Not Provide Adequate Oversight Or Monitoring Of Internal Controls |
| 2006-09 | Fiscal Court Should Pay Obligations Timely |
| 2006-10 | Fiscal Court Should Annually Review The Administrative Code |
| 2006-11 | Fiscal Court Should Monitor Ambulance Franchise Fee Collections |
| 2006-12 | Fiscal Court Should Prepare Accurate Financial Records And Approve All Necessary Transactions |
| 2006-13 | The Fiscal Court Did Not Expend Thirty-Percent Of LGEA Funds On the Coal Haul Road System As Required By KRS 42.455 |
| 2006-14 | The Fiscal Court Did Not Reconcile The Balances Of Projects In Progress In The Local Government Economic Development Fund With The Ending Cash Balance |
| 2006-15 | Fiscal Court Should Request All Investment Statements And Monitor Their Activity |
| 2006-16 | The Fiscal Court Did Not Maintain Documentation Of FEMA Grant Expenditures |

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PEERCY AND GRAY, PSC

Certified Public Accountants

2300 Hurstbourne Village Drive, Suite 500

Louisville, Kentucky 40299

Phone: (502) 493-1090

FAX: (502) 493-7231

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Kenneth R. Witt, Former Leslie County Judge/Executive

Honorable Jimmy Sizemore, Leslie County Judge/Executive

Members of the Leslie County Fiscal Court

Independent Auditor's Report

We were engaged to audit the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Leslie County, Kentucky, as of and for the year ended June 30, 2006 as listed in the table of contents. The financial statements are the responsibility of the Leslie County Fiscal Court.

Based on our assessment of fraud risk, we determined the risk of fraud to be too high, and we were unable to apply other procedures to overcome this fraud risk. In addition, the Fiscal Court had serious weaknesses in the design and operation of its internal control procedures and accounting functions. Furthermore, management elected to override the internal control procedures that were in place. We were unable to apply audit procedures to test for appropriate compliance with statutory, contractual, and administrative regulations as well as with Department of Homeland Security grant agreements, Governor's Office for Local Development (GOLD) requirements, and county administrative code requirements. Because of this, we were also unable to determine if ethics violations occurred. In addition, we were unable to access certain Fiscal Court records needed to adequately conduct our procedures due to the county's failure to provide certain requested documentation. The significance of these issues, in the aggregate, prevents us from placing any reliance on the financial activities contained in the financial statements of the Fiscal Court.

Because we were unable to place reliance on the accuracy, validity, and completeness of the county's financial statements and because audit risk is at an unacceptable level, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

The county has not presented the management's discussion & analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements

We were engaged to audit the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Leslie County Fiscal Court for the purpose of forming opinions and have disclaimed opinions on the financial statements. The budgetary comparison schedule, supplementary information required by GASB, is not a required part of the financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Because of the scope limitation discussed in the second paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the budgetary comparison schedules, the combining fund financial statements and the schedule of expenditures of federal awards.

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Kenneth R. Witt, Former Leslie County Judge/Executive
Honorable Jimmy Sizemore, Leslie County Judge/Executive
Members of the Leslie County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated July 6, 2007, on our consideration of Leslie County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- | | |
|---------|--|
| 2006-01 | Fiscal Court Should Improve Policies And Procedures Related To The Schedule Of Expenditures Of Federal Awards |
| 2006-02 | The Fiscal Court Should Maintain Adequate Documentation For All Expenditures And Attach This Documentation To Checks Presented To The County Judge/Executive And County Treasurer For Signatures |
| 2006-03 | Fiscal Court Employees Used The Former Judge/Executive's Credit Card |
| 2006-04 | Fiscal Court Did Not Provide Adequate Oversight Or Monitoring Of The Code Of Ethics |
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| 2006-15 | Fiscal Court Should Request All Investment Statements And Monitor Their Activity |
| 2006-16 | The Fiscal Court Did Not Maintain Documentation Of FEMA Grant Expenditures |

Respectfully Submitted,



Peercy and Gray PSC
Certified Public Accountants

Louisville, Kentucky
July 6, 2007

LESLIE COUNTY OFFICIALS

For The Year Ended June 30, 2006

Fiscal Court Members:

Kenneth R. Witt	County Judge/Executive
Randall C. Combs	Commissioner
Kenneth F. Smith	Commissioner
Billy Ray Coots	Commissioner

Other Elected Officials:

Phillip Lewis	County Attorney
Eugene Roberts	Jailer
James Lewis	County Clerk
Carmoletta Morgan Pace	Circuit Court Clerk
John C. Morgan	Sheriff
James Wooten	Property Valuation Administrator
Greg Walker	Coroner

Appointed Personnel:

Mack Muncy	County Treasurer
Scott Smith	Finance Officer

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LESLIE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

LESLIE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

Primary Government

	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 6,975,484
Asset Held For Resale	<u>86,955</u>
Total Current Assets	<u>7,062,439</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land and Land Improvements	349,049
Construction in Progress	2,540,365
Buildings	516,461
Other Equipment	50,649
Vehicles and Equipment	204,522
Infrastructure Assets - Net of Depreciation	<u>1,392,654</u>
Total Noncurrent Assets	<u>5,053,700</u>
Total Assets	<u>12,116,139</u>
LIABILITIES	
Current Liabilities:	
Bonds Payable	80,000
Financing Obligations Payable	<u>100,676</u>
Total Current Liabilities	<u>180,676</u>
Noncurrent Liabilities:	
Bonds Payable	5,480,000
Financing Obligations Payable	<u>485,000</u>
Total Noncurrent Liabilities	<u>5,965,000</u>
Total Liabilities	<u>6,145,676</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	(1,091,976)
Restricted For:	
Debt Service	636,416
Capital Projects	2,427,327
Unrestricted	<u>3,998,696</u>
Total Net Assets	<u><u>\$ 5,970,463</u></u>

The accompanying notes are an integral part of the financial statements.

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LESLIE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

LESLIE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 2,020,582	\$ 15,870	\$ 28,865	\$ 125,000
Protection to Persons and Property	784,343		1,181,264	1,575,094
General Health and Sanitation	163,884			
Social Services	427,534		93,575	
Recreation and Culture	417,647			
Roads	1,868,098		2,696,412	1,177,495
Debt Service	142,066			
Capital Projects	820,756			
Total Primary Government	\$ 6,644,910	\$ 15,870	\$ 4,000,116	\$ 2,877,589

General Revenues:

Taxes:
Real Property Taxes
Motor Vehicle Taxes
Other Taxes
Excess Fees
Miscellaneous Revenues
Interest Received

Total General Revenues
Change in Net Assets
Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

LESLIE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

Net (Expenses) Revenues and Changes in Net Assets	
Primary Government	
Governmental Activities	
\$	(1,850,847)
	1,972,015
	(163,884)
	(333,959)
	(417,647)
	2,005,809
	(142,066)
	(820,756)
	<u>248,665</u>
	378,513
	91,206
	535,975
	2,850
	247,508
	<u>90,927</u>
	<u>1,346,979</u>
	1,595,644
	<u>4,374,819</u>
\$	<u><u>5,970,463</u></u>

The accompanying notes are an integral part of the financial statements.

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LESLIE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

LESLIE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

	<u>Special Revenue Funds</u>				<u>Capital Projects Fund</u>
			<u>Local Government Economic Assistance Fund</u>	<u>Local Government Economic Development Fund</u>	<u>Detention Facility Project Fund</u>
	<u>General Fund</u>	<u>Road Fund</u>			
ASSETS					
Cash and Cash Equivalents	\$ 586,305	\$ 359,277	\$ 674,706	\$ 1,708,615	\$ 2,427,327
Total Assets	<u>\$ 586,305</u>	<u>\$ 359,277</u>	<u>\$ 674,706</u>	<u>\$ 1,708,615</u>	<u>\$ 2,427,327</u>
FUND BALANCES					
Reserved for:					
Encumbrances	\$ 130,866	\$ 28,554	\$ 81,427	\$ 140,000	\$
Capital Projects Fund					2,427,327
Debt Service Fund					
Unreserved:					
General Fund	455,439				
Special Revenue Funds		330,723	593,279	1,568,615	
Total Fund Balances	<u>\$ 586,305</u>	<u>\$ 359,277</u>	<u>\$ 674,706</u>	<u>\$ 1,708,615</u>	<u>\$ 2,427,327</u>

The accompanying notes are an integral part of the financial statements.

LESLIE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2006
(Continued)

Debt Service		
Fund		
Detention	Non-	Total
Facility	Major	Governmental
Bond	Funds	Funds
Fund		
<u>\$ 636,177</u>	<u>\$ 583,077</u>	<u>\$ 6,975,484</u>
<u>\$ 636,177</u>	<u>\$ 583,077</u>	<u>\$ 6,975,484</u>
\$	\$ 41,568	\$ 422,415
		2,427,327
636,177	239	636,416
		455,439
	541,270	3,033,887
<u>\$ 636,177</u>	<u>\$ 583,077</u>	<u>\$ 6,975,484</u>

Reconciliation of the Balance Sheet -Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 6,975,484
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Assets Held For Resale are not Financial Resources and therefore	86,955
are not reported in the funds.	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	6,251,451
Accumulated Depreciation	(1,197,751)
Long-term debt is not due and payable in the current period and, therefore,	
is not reported in the funds.	
Due Within One Year - Bonds, Notes, and Lease Principal Payments	(180,676)
Due In More Than One Year - Bonds, Notes, and Lease Principal Payments	(5,965,000)
Net Assets Of Governmental Activities	<u>\$ 5,970,463</u>

The accompanying notes are an integral part of the financial statements.

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LESLIE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

LESLIE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	Special Revenue Funds			
	General Fund	Road Fund	Local Government Economic Assistance Fund	Local Government Economic Development Fund
REVENUES				
Taxes	\$ 788,442	\$ 54,038	\$	\$
In Lieu Tax Payments	61,082			
Excess Fees	2,850			
Intergovernmental	153,865	2,106,744	1,767,163	2,679,335
Charges for Services	15,870			
Miscellaneous	135,907	111,601		
Interest	1,463	3,661	2,777	6,059
Total Revenues	<u>1,159,479</u>	<u>2,276,044</u>	<u>1,769,940</u>	<u>2,685,394</u>
EXPENDITURES				
General Government	591,107		32,754	
Protection to Persons and Property	14,381		188,449	10,017
General Health and Sanitation			163,884	
Social Services			232,809	80,000
Recreation and Culture	29,361		369,012	
Roads		1,588,784	154,601	
Debt Service		6,068		
Capital Projects	166,860	698,007	881	1,001,293
Administration	593,124	142,665	381,268	
Total Expenditures	<u>1,394,833</u>	<u>2,435,524</u>	<u>1,523,658</u>	<u>1,091,310</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(235,354)</u>	<u>(159,480)</u>	<u>246,282</u>	<u>1,594,084</u>
Other Financing Sources (Uses)				
Financing Obligation Proceeds		90,000		
Transfers From Other Funds	370,026			25,000
Transfers To Other Funds	(253,841)	(369,568)	(27,000)	(760,000)
Total Other Financing Sources (Uses)	<u>116,185</u>	<u>(279,568)</u>	<u>(27,000)</u>	<u>(735,000)</u>
Net Changes in Fund Balance	(119,169)	(439,048)	219,282	859,084
Fund Balances - Beginning	<u>705,474</u>	<u>798,325</u>	<u>455,424</u>	<u>849,531</u>
Fund Balances - Ending	<u>\$ 586,305</u>	<u>\$ 359,277</u>	<u>\$ 674,706</u>	<u>\$ 1,708,615</u>

The accompanying notes are an integral part of the financial statements.

LESLIE COUNTY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

(Continued)

<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>		
<u>Detention Facility Project Fund</u>	<u>Detention Facility Bond Fund</u>	<u>Non- Major Funds</u>	<u>Total Governmental Funds</u>
\$	\$	\$ 102,132	\$ 944,612
			61,082
			2,850
		170,598	6,877,705
			15,870
			247,508
61,336	14,457	1,174	90,927
<u>61,336</u>	<u>14,457</u>	<u>273,904</u>	<u>8,240,554</u>
			623,861
		558,880	771,727
			163,884
		113,645	426,454
			398,373
			1,743,385
362,162	109,623	288,425	766,278
2,430,107			4,297,148
13,511	180,282	77,332	1,388,182
<u>2,805,780</u>	<u>289,905</u>	<u>1,038,282</u>	<u>10,579,292</u>
<u>(2,744,444)</u>	<u>(275,448)</u>	<u>(764,378)</u>	<u>(2,338,738)</u>
495,000	5,450,000		6,035,000
5,020,010	396,078	1,015,409	6,826,523
(481,635)	(4,934,453)	(26)	(6,826,523)
<u>5,033,375</u>	<u>911,625</u>	<u>1,015,383</u>	<u>6,035,000</u>
2,288,931	636,177	251,005	3,696,262
138,396		332,072	3,279,222
<u>\$ 2,427,327</u>	<u>\$ 636,177</u>	<u>\$ 583,077</u>	<u>\$ 6,975,484</u>

The accompanying notes are an integral part of the financial statements.

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LESLIE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

LESLIE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

Reconciliation to the Statement of Activities:

Net Change In Fund Balances - Total Governmental Funds	\$ 3,696,262
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Governmental Funds Report Capital Outlays As Expenditures. However, In The Statement Of Activities The Cost Of Those Assets Are Allocated Over Their Estimated Useful Lives And Reported As Depreciation Expense.

Capital Outlay	3,389,437
Depreciation Expense	(89,699)
Net Book Value of Disposed Assets	(76,523)
Purchase of Asset Held For Resale	86,955

The Issuance Of Long-term Debt (e.g. Bonds, Leases) Provides Current Financial Resources To Governmental Funds, While Financing Obligations Principal Payments Are Expensed In The Governmental Funds As A Use Of Current Financial Resources. These Transactions, However, Have No Effect On Net Assets.

Bond Proceeds	(5,450,000)
Financing Obligation Proceeds	(585,000)
Bond Payments	280,000
Financing Obligation Payments	344,212

Change in Net Assets of Governmental Activities	<u><u>\$ 1,595,644</u></u>
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**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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LESLIE COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Leslie County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. The county has no discretely presented component units.

Blended Component Units

The following legally separate organization provided its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

Leslie County Public Properties Corporation

The Leslie County Fiscal Court (Fiscal Court) established the Leslie County Public Properties Corporation (Corporation) as a separate entity for the purpose of financing the construction and installation of public projects in furtherance of the proper public purposes of Leslie County. The Corporation's governing body consists of the members of the Fiscal Court, which includes the Leslie County Judge/Executive and the three magistrates and has perpetual existence. Since the Fiscal Court has complete authority over this entity this makes it a component unit of the county. The financial information for the Leslie County Public Properties Corporation is blended within the Leslie County's financial statements.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Leslie County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Leslie County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Leslie County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-Wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Major individual governmental funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund-The primary purpose of this fund is to account for general health and sanitation, social services and economic assistance expenses of the county. The primary sources of revenue are state grants, coal and mineral severances taxes, landfill user fees, and recreational area user fees. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Development Fund - The purpose of this fund is to account for projects funded by Local Government Economic Development funds. The primary sources of revenue are grants received from the Governor's Office for Local Development.

Detention Facility Project Fund – the purpose of this fund is to account for the construction of the new detention center.

Detention Facility Bond Fund – the purpose of this fund is to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

The primary government also has the following non-major funds: Jail Fund, Senior Citizens Fund, 911 Fund, Community Development Block Grant Waterline Fund, and the Public Properties Corporation Fund.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-Wide and Fund Financial Statements (Continued)

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund (LGEA), Local Government Economic Development Fund, Senior Citizens Fund, 911 Fund, and Community Development Block Grant Waterline Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Funds:

The Leslie County Public Properties Corporation Fund and the Detention Facility Bond Fund are presented as debt service funds. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Capital Projects Fund:

The Detention Facility Project Fund is presented as a capital projects fund. Capital project funds are to account for the construction of new facilities.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land, Construction In Progress and certain land improvements are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 50,000	10-20
Buildings	All	25-40
Building Improvements	\$ 50,000	25-40
Other Equipment	\$ 2,500	5-20
Vehicles and Equipment	\$ 5,000	5-10
Infrastructure	\$ 50,000	5-50

G. Long-term Obligations

In the government-wide financial statements and proprietary funds in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance, if applicable.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The Leslie County Public Properties Corporation Fund (blended component unit), Leslie County Detention Facility Project Fund, and the Leslie County Detention Facility Bond Fund are not budgeted by the county treasurer. The Governor's Office for Local Development does not require the fiscal court to report or budget these funds.

J. Related Organizations and Joint Ventures

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, Hyden-Leslie County Water and Sewer District, Extension District, Library District, and Health District are considered related organizations of Leslie County Fiscal Court.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the Elk Hill-Leslie Industrial Development Authority and Hyden-Leslie Industrial Development Authority are considered joint ventures of the Leslie County Fiscal Court:

Note 2. Deposits

The County maintains deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution's failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240 (4). As of June 30, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 205,000	\$	\$	\$ 205,000
Construction In Progress	110,258	2,430,107		2,540,365
Total Capital Assets Not Being Depreciated	315,258	2,430,107		2,745,365
Capital Assets, Being Depreciated:				
Land Improvements		151,631		151,631
Buildings	960,760	54,654		1,015,414
Other Equipment	490,169	12,910		503,079
Vehicles and Equipment	342,356	145,537	(82,461)	405,432
Infrastructure	835,932	594,598		1,430,530
Total Capital Assets Being Depreciated	2,629,217	959,330	(82,461)	3,506,086
Less Accumulated Depreciation For:				
Land Improvements		(7,582)		(7,582)
Buildings	(478,645)	(20,308)		(498,953)
Other Equipment	(444,431)	(7,999)		(452,430)
Vehicles and Equipment	(181,813)	(25,035)	5,938	(200,910)
Infrastructure	(9,101)	(28,775)		(37,876)
Total Accumulated Depreciation	(1,113,990)	(89,699)	5,938	(1,197,751)
Total Capital Assets, Being Depreciated, Net	1,515,227	869,631	(76,523)	2,308,335
Governmental Activities Capital Assets, Net	\$ 1,830,485	\$ 3,299,738	\$ (76,523)	\$ 5,053,700

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$	8,539
Protection to Persons and Property		12,616
Social Services		1,080
Recreation and Culture		19,274
Roads, Including Depreciation of General Infrastructure Assets		<u>48,190</u>
Total Depreciation Expense - Governmental Activities	\$	<u><u>89,699</u></u>

Note 4. Long-term Debt

A. Leslie County Public Properties Corporation General Obligation Refunding Bonds Series 2003

On September 19, 2003 the Leslie County Public Properties Corporation issued \$940,000 General Obligation Refunding Bonds, Series 2003 for the purpose of advance refunding of all outstanding County of Leslie General Obligation Bonds. The bonds mature serially through February 1, 2008 and require annual principal payments due on February 1. Semi-annual payments of trustee fees and interest payments at a variable interest rate ranging from 1.25% to 2.75% are due on February 1 and August 1 of each year. Bonds outstanding as of June 30, 2006 were \$110,000. Future principal and interest requirements are:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 80,000	\$ 2,825
2008	<u>30,000</u>	<u>825</u>
Totals	<u>\$ 110,000</u>	<u>\$ 3,650</u>

B. Leslie County Public Properties Corporation General Obligation Improvement Bonds Series 2005

On December 27, 2005 the Leslie County Public Properties Corporation issued \$5,450,000 General Obligation Improvement Bonds, Series 2005 for the purpose of constructing a detention center. The bonds mature serially through December 1, 2035 and require annual principal payments due on December 1 with the first payment due December 1, 2007. Semi-annual payments of interest at an interest rate of 4.625% are due on June 1 and December 1 of each year with the first payment due June 1, 2006. Bonds outstanding as of June 30, 2006 were \$5,450,000. Future principal and interest requirements are:

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 4. Long-term Debt (Continued)

B. Leslie County Public Properties Corporation General Obligation Improvement Bonds Series 2005

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$	\$ 256,263
2008	95,000	254,066
2009	95,000	249,672
2010	100,000	245,163
2011	105,000	240,422
2012-2016	600,000	1,122,906
2017-2021	745,000	968,547
2022-2026	940,000	773,094
2027-2031	1,210,000	519,650
2032-2036	1,560,000	193,086
Totals	<u>\$ 5,450,000</u>	<u>\$ 4,822,869</u>

C. Jeep Cherokee Sport

On February 10, 2003, the Leslie County Fiscal Court entered into a three-and-a-half-year financing obligation with Hyden Citizens Bank for the purchase of a Jeep Cherokee. The principal amount borrowed was \$13,823 with an interest rate of 6.00%. The agreement requires monthly payments of principal and interest. The outstanding balance as of June 30, 2006 was \$676. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 676	\$ 5
Totals	<u>\$ 676</u>	<u>\$ 5</u>

D. Kentucky Area Development Districts (KADD) Financing Trust - Jail Construction Project

On October 6, 2005, the Leslie County Fiscal Court entered into an agreement with KADD Financing Trust for the construction of a new detention facility. Total principal was \$495,000 and requires annual principal payments due on October 1 beginning on October 1, 2006 for a period of thirty years. Interest payments are due semi-annually at a variable interest rate of 3.400 % and 5.000% due on April 1 and October 1 beginning on April 1 2006 for a period of thirty years. Principal outstanding as of June 30, 2006 was \$495,000. Future principal and interest requirements are:

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 4. Long-term Debt (Continued)

D. Kentucky Area Development Districts (KADD) Financing Trust – Jail Construction Project (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 10,000	\$ 23,460
2008	10,000	23,110
2009	10,000	22,740
2010	10,000	22,350
2011	10,000	21,945
2012-2016	50,000	103,075
2017-2021	70,000	89,613
2022-2026	85,000	71,148
2027-2031	105,000	47,375
2032-2036	135,000	17,624
Totals	<u>\$ 495,000</u>	<u>\$ 442,440</u>

E. Kentucky Area Development Districts (KADD) Financing Trust – Truck Purchase

On March 17, 2006, the Leslie County Fiscal Court entered into an agreement with KADD Financing Trust for the purchase of a truck. Total principal was \$90,000 and requires one principal payment due on March 1, 2007. Interest payments are due semi-annually at an interest rate of 3.750 % due on March 1 and September 1 beginning on September 1, 2006. Principal outstanding as of June 30, 2006 was \$90,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 90,000	\$ 3,742
Totals	<u>\$ 90,000</u>	<u>\$ 3,742</u>

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 4. Long-term Debt (Continued)

F. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance (Restated)	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds:					
Revenue	\$ 390,000	\$	\$ 280,000	\$ 110,000	\$ 80,000
Improvement		5,450,000		5,450,000	
Financing Obligations	344,888	585,000	344,212	585,676	100,676
Governmental Activities					
Long-term Liabilities	<u>\$ 734,888</u>	<u>\$ 6,035,000</u>	<u>\$ 624,212</u>	<u>\$ 6,145,676</u>	<u>\$ 180,676</u>

Note 5. Interest Included in Debt Service

Debt Service on the Statement of Activities includes the following: Long-term interest paid of \$11,837 for the KADD Financing Trust obligation and \$12,181 for other financing obligations, long-term interest paid of \$8,425 for the Leslie County Public Properties Corporation General Obligation Refunding Bonds and \$109,623 for the Leslie County Public Properties Corporation General Obligation Improvement Bonds.

Note 6. Related Party Transactions

During the fiscal year, the Fiscal Court purchased an all-terrain-vehicle (ATV) from the then deputy judge/executive/finance officer for \$7,500.

Note 7. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 7. Employee Retirement System (Continued)

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement System's annual financial report. This report may be obtained by writing the Kentucky Retirements System, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 8. Insurance

For the fiscal year ended June 30, 2006, Leslie County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Subsequent Events

On November 15, 2006, the Leslie County Fiscal Court issued \$1,280,000 in General Obligation Improvement Bonds for Phase II of the Detention Facility Project. The bonds mature serially through December 1, 2035 and require annual principal payments due on December 1 with the first payment due December 1, 2007. Semi-annual payments of interest at variable interest rates between 4.000 and 4.625% are due on June 1 and December 1 of each year with the first payment due June 1, 2007.

On June 14, 2007, the Leslie County Fiscal Court approved an Occupational Tax Ordinance. The county will tax net profit or compensation at a rate of 1 % beginning August 1, 2007

Note 10. Prior Period Adjustment

Beginning Net Assets on the Statement of Activities and the beginning balance on the long-term debt footnote was restated due to a prior year error in recording debt. There was \$44,289 added to the beginning net asset total of \$4,330,530, for a restated amount of \$4,374,819.

LESLIE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006

LESLIE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 849,300	\$ 849,300	\$ 788,442	\$ (60,858)
In Lieu Tax Payments	71,430	71,430	61,082	(10,348)
Excess Fees	10,000	10,000	2,850	(7,150)
Intergovernmental Revenue	136,250	167,332	151,660	(15,672)
Charges for Services	15,300	15,300	15,870	570
Miscellaneous	34,100	110,205	138,112	27,907
Interest	2,500	2,500	1,463	(1,037)
Total Revenues	<u>1,118,880</u>	<u>1,226,067</u>	<u>1,159,479</u>	<u>(66,588)</u>
EXPENDITURES				
General Government	648,421	695,869	594,236	101,633
Protection to Persons and Property	3,714	18,095	14,381	3,714
Recreation and Culture	16,000	204,150	193,092	11,058
Administration	917,260	841,653	593,124	248,529
Total Expenditures	<u>1,585,395</u>	<u>1,759,767</u>	<u>1,394,833</u>	<u>364,934</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(466,515)</u>	<u>(533,700)</u>	<u>(235,354)</u>	<u>298,346</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	110,000	110,000	370,026	260,026
Transfers To Other Funds	<u>(223,485)</u>	<u>(223,485)</u>	<u>(253,841)</u>	<u>(30,356)</u>
Total Other Financing Sources (Uses)	<u>(113,485)</u>	<u>(113,485)</u>	<u>116,185</u>	<u>229,670</u>
Net Changes in Fund Balance	(580,000)	(647,185)	(119,169)	528,016
Fund Balance - Beginning	<u>580,000</u>	<u>705,474</u>	<u>705,474</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 58,289</u>	<u>\$ 586,305</u>	<u>\$ 528,016</u>

LESLIE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
In Lieu Tax Payments	\$ 54,000	\$ 54,000	\$ 54,038	\$ 38
Intergovernmental Revenue	996,789	2,018,401	2,106,744	88,343
Miscellaneous	2,000	2,000	111,600	109,600
Interest	3,000	3,000	3,637	637
Total Revenues	1,055,789	2,077,401	2,276,019	198,618
EXPENDITURES				
Roads	665,350	2,248,577	2,204,230	44,347
Debt		87,699	544	87,155
Administration	696,226	211,408	141,315	70,093
Total Expenditures	1,361,576	2,547,684	2,346,089	201,595
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(305,787)	(470,283)	(70,070)	400,213
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(369,583)	(369,583)	(369,568)	15
Total Other Financing Sources (Uses)	(369,583)	(369,583)	(369,568)	15
Net Changes in Fund Balance	(675,370)	(839,866)	(439,638)	400,228
Fund Balance - Beginning	700,000	797,202	797,202	
Fund Balance - Ending	\$ 24,630	\$ (42,664)	\$ 357,564	\$ 400,228

LESLIE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,091,000	\$ 1,195,479	\$ 1,767,163	\$ 571,684
Miscellaneous	1,000	1,000		(1,000)
Interest	1,000	1,000	2,777	1,777
Total Revenues	1,093,000	1,197,479	1,769,940	572,461
EXPENDITURES				
General Government	31,689	32,884	32,754	130
Protection to Persons and Property	83,865	190,324	188,449	1,875
General Health and Sanitation	44,810	166,026	163,884	2,142
Social Services	167,900	233,352	232,809	543
Recreation and Culture	305,000	395,929	369,893	26,036
Roads	208,500	174,019	154,601	19,418
Administration	319,735	428,868	381,268	47,600
Total Expenditures	1,161,499	1,621,402	1,523,658	97,744
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)				
	(68,499)	(423,923)	246,282	670,205
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(31,501)	(31,501)	(27,000)	4,501
Total Other Financing Sources (Uses)	(31,501)	(31,501)	(27,000)	4,501
Net Changes in Fund Balance	(100,000)	(455,424)	219,282	674,706
Fund Balance - Beginning	100,000	455,424	455,424	
Fund Balance - Ending	\$ 0	\$ 0	\$ 674,706	\$ 674,706

LESLIE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

LOCAL GOVERNMENT ECONOMIC DEVELOPMENT FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 4,190,889	\$ 4,219,114	\$ 2,679,335	\$ (1,539,779)
Interest	5,000	5,000	6,059	1,059
Total Revenues	4,195,889	4,224,114	2,685,394	(1,538,720)
EXPENDITURES				
Protection to Persons and Property		10,017	10,017	
Social Services		80,000	80,000	
Capital Projects	4,866,407	4,804,615	1,001,293	3,803,322
Administration		55,000		55,000
Total Expenditures	4,866,407	4,949,632	1,091,310	3,858,322
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)				
	(670,518)	(725,518)	1,594,084	2,319,602
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			25,000	25,000
Transfers To Other Funds	(207,411)	(207,411)	(760,000)	(552,589)
Total Other Financing Sources (Uses)	(207,411)	(207,411)	(735,000)	(527,589)
Net Changes in Fund Balance	(877,929)	(932,929)	859,084	1,792,013
Fund Balance - Beginning	853,300	853,300	849,531	(3,769)
Fund Balance - Ending	\$ (24,629)	\$ (79,629)	\$ 1,708,615	\$ 1,788,244

LESLIE COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2006

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by June 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Reconciliation to the Road Fund

Total Revenues-Budgetary Basis	\$ 2,276,019
To record KADD lease transactions not budgeted	<u>25</u>
Total Revenues-Modified Cash Basis	<u>\$ 2,276,044</u>
Total Expenditures-Budgetary Basis	2,346,089
To record KADD lease transactions not budgeted	<u>89,435</u>
Total Revenues-Modified Cash Basis	<u>\$ 2,435,524</u>
Total Other Financing Uses-Budgetary Basis	(369,568)
To record KADD lease transactions not budgeted	<u>90,000</u>
Total Other Financing Uses-Modified Cash Basis	<u>\$ (279,568)</u>
Fund Balance - Beginning-Budgetary Basis	797,202
To record KADD lease transactions not budgeted	<u>1,123</u>
Fund Balance - Beginning-Modified Cash Basis	<u>\$ 798,325</u>

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LESLIE COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS

Other Supplementary Information

June 30, 2006

LESLIE COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2006

	Special Revenue Funds			Debt Service Fund	Total Non-Major Governmental Funds
	Jail Fund	Senior Citizens Fund	911 Fund	Public Properties Corporation Fund	
ASSETS					
Cash and Cash Equivalents	\$ 10,296	\$ 25,778	\$ 546,764	\$ 239	\$ 583,077
Total Assets	<u>\$ 10,296</u>	<u>\$ 25,778</u>	<u>\$ 546,764</u>	<u>\$ 239</u>	<u>\$ 583,077</u>
FUND BALANCES					
Reserved for:					
Encumbrances	\$ 28,695	\$ 8,759	\$ 4,114	\$	\$ 41,568
Debt Service Fund				239	239
Unreserved:					
Special Revenue Funds	<u>(18,399)</u>	<u>17,019</u>	<u>542,650</u>	<u></u>	<u>541,270</u>
Total Fund Balances	<u>\$ 10,296</u>	<u>\$ 25,778</u>	<u>\$ 546,764</u>	<u>\$ 239</u>	<u>\$ 583,077</u>

The accompanying notes are an integral part of the financial statements.

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LESLIE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2006

LESLIE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2006

	Special Revenue Funds			
	Jail Fund	Senior Citizens Fund	911 Fund	Community Development Block Grant Waterline Fund
REVENUES				
Taxes	\$	\$	\$ 102,132	\$
Intergovernmental	77,023	93,575		
Interest	58		877	
Total Revenues	77,081	93,575	103,009	
EXPENDITURES				
Protection to Persons and Property	301,355		257,525	
Social Services		113,645		
Debt Service				
Administration			77,332	
Total Expenditures	301,355	113,645	334,857	
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(224,274)	(20,070)	(231,848)	
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds				(26)
Transfers From Other Funds	227,000		500,000	
Total Other Financing Sources (Uses)	227,000		500,000	(26)
Net Changes in Fund Balances	2,726	(20,070)	268,152	(26)
Fund Balances - Beginning	7,570	45,848	278,612	26
Fund Balances - Ending	\$ 10,296	\$ 25,778	\$ 546,764	\$ 0

The accompanying notes are an integral part of the financial statements.

LESLIE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2006
(Continued)

Debt Service	
Fund	
Public	Total
Properties	Non-Major
Corporation	Governmental
Fund	Funds
<hr/>	
\$	\$ 102,132
	170,598
239	1,174
<hr/>	<hr/>
239	273,904
<hr/>	<hr/>
	558,880
	113,645
288,425	288,425
	77,332
<hr/>	<hr/>
288,425	1,038,282
<hr/>	<hr/>
(288,186)	(764,378)
<hr/>	<hr/>
	(26)
288,409	1,015,409
<hr/>	<hr/>
288,409	1,015,383
<hr/>	<hr/>
223	251,005
16	332,072
<hr/>	<hr/>
\$ 239	\$ 583,077
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The accompanying notes are an integral part of the financial statements.

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LESLIE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2006

LESLIE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2006

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses a disclaimer of opinion on the governmental activities, each major fund, and aggregate remaining fund information of Leslie County, Kentucky.
2. Twelve (12) reportable conditions relating to the internal control over financial reporting are reported in the Independent Auditor's Report. All twelve are considered material weaknesses.
3. Three (3) instances of noncompliance material to the financial statements of Leslie County were disclosed during the audit.
4. One (1) reportable condition and material weakness relating to the audit of the major federal awards programs is reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Leslie County expresses a disclaimer opinion on Public Assistance Grants CFDA #97.036.
6. There is one (1) audit finding relative to the major federal award program for Leslie County reported in Part C of this schedule.
7. The program tested as a major program was: Public Assistance Grants CFDA #97.036.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Leslie County was not determined to be a low-risk auditee.

B. FINANCIAL STATEMENT FINDINGS

2006-01 Fiscal Court Should Improve Policies and Procedures Related To The Schedule Of Expenditures Of Federal Awards

During our review of the Schedule of Expenditures of Federal Awards (SEFA), we noted multiple significant errors. Specifically, we noted the following:

- Federal expenditures were not included on the schedule. Only expenditures recorded in certain expense accounts were included. Other expenses for additional materials and equipment costs included on requests for reimbursement submitted to the reimbursing agency were not included on the SEFA. The amount was undeterminable.
- The amounts listed on the SEFA were the total amounts expended, as the federal portion was not segregated.
- No record was kept showing revenue and expenditures on a program basis.
- There was no proof of investigation of suspension or debarment of vendors
- The request for reimbursements were never reconciled to the amounts recorded in the appropriations ledger.
- Copies of grant agreements were not maintained.
- In addition to these errors, the SEFA was not prepared in a timely manner for audit.

OMB Circular A-133, Subpart C-Auditees; Section _____.300 Auditee responsibilities states, "The auditee shall:

- Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with Section _____.310.

LESLIE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2006
(Continued)

2006-01 Fiscal Court Should Improve Policies and Procedures Related To The Schedule Of Expenditures Of Federal Awards (Continued)

The effect of these errors on the FY 06 SEFA, together with the control environment of this entity, has led the auditors to question whether all federal grant awards and expenditures were included on the SEFA.

We recommend Fiscal Court follow OMB Circular A-133 for preparation of the government's SEFA and review for completeness. We further recommend procedures be put in place to ensure all federal grants awarded and expenditures paid are included and reconciled to the records of the Fiscal Court.

County Judge/Executive Jimmy Sizemore's Response: Although this all occurred under a previous administration, we are in the process of completing the record to satisfy OMB CIRCULAR A-133. I have also taken action and put in place procedures to prevent this from occurring again.

2006-02 Fiscal Court Should Maintain Adequate Documentation For All Expenditures And Attach This Documentation To Checks Presented to the County Judge/Executive and County Treasurer For Signatures

During our test of expenditures, we were unable to determine if payments were accurately paid or posted as source documentation, such as authorizations, invoices and receipts were missing. As noted below, we found the following:

- Of the \$19,926 in credit card purchases charged during the year, we could not determine the appropriateness of \$15,028 due to lack of supporting documentation.
- There were \$1,281 purchases charged in California during September 2005 with no supporting documentation. The Fiscal Court could provide no records or reason for this trip. According to the Administrative Code, "all travel must be approved in advance" and a request for reimbursement form must be completed within 30 days after returning from travel."

Of the \$4,898 in credit card bills that had supporting documentation, the following exceptions were found:

- There was a receipt for a purchase of a cell phone and activation with the number 606-275-0359. This number was never included on the Fiscal Court's cell phone bill, and Fiscal Court does not know who actually used this phone. The number has since been reassigned.
- There was \$25 in fuel receipts with no evidence of the vehicle filled.
- There was \$318 in supporting documentation that was illegible.
- There was \$271 charged for meals that did not contain purpose and attendees.
- Lodging bills included a total of \$41 for movies.
- There was \$111 of supporting documentation that did not contain a purpose for the expenditure.
- There was \$843 of supporting documentation that only included a packing slip.

Additionally:

- Four checks were written and issued without any supporting documentation.

LESLIE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2006
(Continued)

2006-02 Fiscal Court Should Maintain Adequate Documentation For All Expenditures And Attach This Documentation To Checks Presented to the County Judge/Executive and County Treasurer For Signatures (Continued)

While we were inquiring about the Purchase/Procurement System used and subsequently testing disbursements, we were told that invoices that are maintained are not attached to the checks presented to the Judge and Treasurer for their signatures. The list of expenditures is, however, approved by fiscal court before payment.

We recommend the Fiscal Court maintain detailed supporting documentation for all expenditures of the county and only those expenditures related to official county business be approved and paid. Furthermore, we recommend this supporting documentation be attached to the approved purchase order as required by the administrative code prior to payment. Additionally, the invoices should also be attached to the checks submitted to the County Judge/Executive and County Treasurer to review and compare prior to signature.

County Judge/Executive Jimmy Sizemore's Response: None

2006-03 Fiscal Court Employees Used The Former Judge/Executive's Credit Card

The Fiscal Court allowed other employees the use of the former County Judge/ Executive's credit card. The Fiscal Court did not reconcile these credit card receipts to the credit card statements to ensure proper use of credit cards. There was no supporting documentation of \$15,028 (**See comment 2006-02**) of purchases. The two personnel that maintained the two issued credit cards were the Judge/Executive and the Deputy Judge/Executive.

Strong internal controls dictate that no other employee use a credit card assigned to another county official or employee for any reason. Employees who have credit cards issued to them are responsible for the purchases made on that card. A strong internal control system dictates that there be procedures in place that require monthly credit card receipts to be submitted by employees and reconciled to the credit card statements by appropriate personnel.

We recommend the County Attorney or Attorney General review these transactions to determine whether restitution should be made. Also, the fiscal court should implement procedures to eliminate the use of credit cards by unauthorized users and to require credit card receipts to be submitted by employees and reconciled to the credit card statements on a monthly basis by appropriate personnel.

County Judge/Executive Jimmy Sizemore's Response: None

2006-04 Fiscal Court Did Not Provide Adequate Oversight Or Monitoring Of The Code Of Ethics

The Code of Ethics adopted by the county states that "no county government officer or employee shall use, or attempt to use, his official position to secure unwarranted privileges or advantages for himself or others."

Numerous county cell phones and vehicles are maintained by the county and assigned to employees for business use. Of all county employees, only the County Judge/Executive and appointed employees

LESLIE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2006
(Continued)

2006-04 Fiscal Court Did Not Provide Adequate Oversight Or Monitoring Of The Code Of Ethics (Continued)

(Road Foreman, DES Director, Finance Officer and Solid Waste Coordinator) have access to county equipment during non-business hours for personal use. We determined these employees drove the county vehicles and used the cell phones for personal business. The county paid for the cell phone service and insurance coverage, annual taxes repairs and maintenance and fuel for the vehicles. The following is a list of the county equipment and the employee responsible for each as of June 30, 2006:

Year	Make	Model	Cell Number	Title/Department
2005	Chevrolet	Tahoe	606-275-1200	Judge/Executive
2000	Jeep	Cherokee	606-205-4804	Road Foreman
1995	Jeep	Cherokee	606-335-0694	DES Director
2003	Dodge	Van	606-275-5520	Finance Officer
1995	Jeep	Cherokee		Solid Waste Coordinator

The Chevrolet Tahoe was purchased with grant funds from a Homeland Security grant which specifically states that the funds should be used to purchase a vehicle to “respond to incidents of terrorism involving the use of chemical, radiological, nuclear or explosive (CBRNE) weapons. The grant purchases included enhancements to the vehicle for emergency lights and radio equipment to make it a command truck. The former Judge /Executive had the emergency lighting system removed and gave it to the Sheriff. The Dodge Van is a vehicle purchased with grant funds by the Leslie, Knott, Letcher, Perry, Inc., a Community Action Council (LKLP), and leased by the Leslie County Senior Citizens Program.

Personal use of public resources is permitted if the entity has approved such use; however, personal use should be reported as compensation on employees’ wage and tax statement. The Internal Revenue Service code Section 61(a) states that the commuting value of a vehicle owned or leased by a public entity represents taxable income to the employee.

We also noted the purchase of an all-terrain-vehicle (ATV) from then Deputy Judge/Executive/Finance Officer for \$7,500. No evidence was available as to the Fiscal Court determining a fair-market value of the ATV. However, a review by the auditor determined the amount as reasonable. The former Deputy Judge/Executive has since been named director of the ATV Park. The ATV in question is currently used for the ATV Park and is under his control. A search for the title found that the title for the ATV was not signed over to the Fiscal Court until June 13, 2007, the date of the auditor’s request to review the title. The title was signed as of June 12, 2007 but when specifically asked about the title being in the County’s possession on June 13, the response was that the former Deputy Judge/Executive/Finance Officer was “bringing it by”.

The following issues warrant further consideration by the fiscal court and need to be addressed:

- Mileage logs are not maintained on these vehicles, phone logs are not maintained on these cell phones and therefore personal and business use cannot be established.
- Commuting use of the vehicles or personal calls made are not properly included on the employee’s W-2 statements for tax liability

LESLIE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2006
(Continued)

2006-04 Fiscal Court Did Not Provide Adequate Oversight Or Monitoring Of The Code Of Ethics (Continued)

- The necessity of vehicles, cell phones and credit cards for those employees who are not on call at all times is in question, especially in relation to personal use that has been permitted by the fiscal court.
- The uses of equipment or vehicles purchased with grant funds outside of grant program activities.
- Review the purchase of the ATV for possible ethics code violations.

We recommend that fiscal court improve controls for oversight and monitoring by implementing the following:

- Fiscal court should evaluate the necessity of county vehicles, cell phones and credit cards for each employee. Vehicles, cell phones and credit cards should be assigned based upon criteria established by the fiscal court and not for the convenience of the official/employee. In addition, the county should explore alternatives for county related travel and cell phones, including the possibility of compensating employees through reimbursement when their personal vehicle or cell phone is used for county business instead of providing county vehicles and cell phones for personal use.
- Every employee and every department that has county vehicles and cell phones should maintain usage logs. The logs should include the date, destination, purpose, mileage or minutes for all use of vehicles and cell phones.
- Personal use for county vehicles and cell phones should be properly reported as compensation/employee benefit on W-2's in accordance with IRS regulations.
- Fiscal court should contact the Kentucky Department of Revenue and the Internal Revenue Service relating to wage reporting and tax liability in prior years and develop a policy related to vehicle, cell phone and credit card assignment. **(See also comment 2006-03)**
- Fiscal court should review all transactions that involve the fiscal court and any county employee to ensure the Code of Ethics is not violated and amend the Administrative Code to assign an independent board to review these types of transactions.

County Judge/Executive Jimmy Sizemore's Response: None

2006-05 Fiscal Court Should Approve Employee Pay Rates, Maintain Adequate Documentation For All Personnel Files, and Adjust Payroll Withholdings Timely

During the course of our audit and more specifically, test of payroll, we noted the following:

- Fiscal court approves within the budget each year the salaries on a line-item basis in total. However, a detailed schedule of employees and pay rates was not presented or approved by fiscal court. The former Judge/Executive gave pay increases randomly to some employees throughout the year. These pay increases were communicated verbally to the Treasurer, who prepared the payroll.
- Additionally, during the test of payroll, we noted that several documents were missing from various personnel files. One file was missing a W-4, and another file was missing a deferred compensation authorization. We were unable to verify that correct amounts were withheld on these employees.
- We also noted one employee who worked full time in 2006, but retirement was not withheld from his checks or paid to Kentucky Retirement Systems for him until August 2006.

LESLIE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2006
(Continued)

2006-05 Fiscal Court Should Approve Employee Pay Rates, Maintain Adequate Documentation For All Personnel Files, and Adjust Payroll Withholdings Timely
(Continued)

We recommend that fiscal court review and approve a detailed schedule of all employee pay rates in correlation with the budget line-item approval process. We also recommend the county review all personnel files and maintain up to date documentation on all employees and consult with the Kentucky Retirement System to correct the retirement for the one employee who was eligible for retirement, but was not enrolled timely.

County Judge/Executive Jimmy Sizemore's Response: None

2006-06 The Fiscal Court Did Not Provide Adequate Oversight Or Monitoring Of Financial Activities

During our audit testing, several inequities between the administrative policies and accounting policies were noted:

- The county has three constables. All are paid \$420 per month. Two of the three constables are issued a 1099-MISC Form for the total county payments as independent contractors. The third constable remits some receipts for reimbursement of gas and auto repairs. In 2006, this constable remitted receipts totaling \$2,851. It was noted that his wife signed several of these receipts. There was no mileage log maintained to record travel required by the county. The duties of a constable require minimal time. Furthermore, he was not issued a 1099 for the difference of \$2,189.
- The county has three commissioners. All three commissioners are offered the same pre-tax health insurance benefit as all other employees within the county according to the Administrative Code. The county's policy is to pay for the employee's coverage, \$337 per month in fiscal year 2006, or the employee may opt to waive the benefit. There is no cafeteria plan in effect. In 2006, one commissioner accepted the health insurance benefit through the normal payroll process. The other two commissioners were paid \$337 per month. This amount was not included on their W-2's. They were issued 1099's, but the amount was reduced by the amount the commissioners paid for their health insurance acquired elsewhere. The county does not have documentation of the cost of this other health insurance. One commissioner received \$4,349 in added compensation during 2006, but received a 1099 for \$1,409. The other commissioner received \$4,406 in added compensation during 2006, but received a 1099 for \$3,958.
- There are also two county employees that received cash instead of health insurance in fiscal year 2006, the former Deputy Judge/Executive/Finance Officer and a maintenance employee. The former Deputy Judge/Executive/Finance Officer was issued a 1099, but the amount was reduced from the actual amount received of \$4,614 to \$1,892, an undocumented difference of \$2,153. The maintenance employee did not receive a 1099 for the \$690 he received for his health insurance supplement. This cash option was not available to all county employees.
- For the 911 employees, the Fiscal Court pays a standard rate of \$75 per month per employee for travel expenses. This standard rate is not approved through fiscal court or the Administrative Code, which dictates that mileage reimbursement is \$.30 per mile. No

LESLIE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2006
(Continued)

2006-06 The Fiscal Court Did Not Provide Adequate Oversight Or Monitoring Of Financial Activities (Continued)

supporting documentation was remitted for this travel reimbursement to 911 employees. If an employee requests reimbursement for a greater amount, then a reimbursement request is submitted and \$.32 per mile is paid. All other county employees are reimbursed for travel based upon the Administrative Code.

We recommend that fiscal court establish **uniform** policies, including travel reimbursements, for all employees of the county, and include these policies in the Administrative Code. We also recommend that fiscal court contact the Kentucky Department of Revenue and the Internal Revenue Service relating to wage reporting and tax liability for 1099 forms issued to employees in prior years. We further recommend the County Attorney or Attorney General review these transactions to determine whether restitution should be made.

County Judge/Executive Jimmy Sizemore's Response: None

2006-07 The Fiscal Court Did Not Maintain Proper Documentation For Capital Assets

The County did not maintain proper documentation for all capital assets. During our review of 119 transactions tested, we found the following:

- Of the 119 items tested, 27 contained items that should be capitalized per the Fiscal Court's policy. Included in these items was construction in progress in which none was recorded on the Fiscal Court's listing.
- One item for excavator work in the amount of \$9,001 was billed to an individual with no explanation as to why the Fiscal Court paid it.
- Items reimbursed to the local saddle club in the amount of \$7,093 had no supporting documentation except for copies of checks written.
- Items requested for reimbursement by the ambulance service totaled \$10,320, however, the total amount of the Emergency Medical Board receipts of \$10,689 was reimbursed.
- Two items requested for reimbursement by the County Clerk in the amount of \$4,697 had no supporting documentation.
- Three items totaling \$19,877 were recorded in the wrong expenditure account and should have been reclassified.

The County cannot determine insurance needs or if property (capital assets) is owned without proper documentation. The Instructional Guide For County Budget Preparation and State Local Officer Policy Manual, issued by the Governor's Office for Local Development (GOLD), outlines requirements for capital assets. The requirements specifically state: "All contracts, invoices, purchase orders and authorizations, vendor bidding documentation, receipts, deeds, etc. must be maintained/filed with the asset documentation records."

The County did not maintain proper supporting documentation for capital assets and did not comply with capital asset requirements as established by GOLD.

We recommend the County maintain all capital asset documentation as required in GOLD's policy manual and the County's Capitalization Policy. Original documentation should be maintained in a central location with copies provided to the applicable departments as necessary for departmental recordkeeping.

County Judge/Executive Jimmy Sizemore's Response: None

LESLIE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2006
(Continued)

2006-08 Fiscal Court Did Not Provide Adequate Oversight Or Monitoring Of Internal Controls

During our audit, we noted at least nine different signatures of the former County Judge/Executive's name. These were noted on checks written for all funds (dual signatures are required), purchase orders, budget and budget amendments, etc. The Judge gave written permission to two employees to sign his name. This is considered management override of controls.

Proper accounting procedures and internal control policies should be in place. The failure to adequately provide or properly monitor financial management activities increases the risk of materially misstated financial statements due to errors or omissions from improper reporting or fraud. Failure to provide proper oversight of internal controls leaves the county at risk. Sound management and a good internal control structure are essential for the achievement of full oversight and accountability.

We recommend the fiscal court design and implement procedures when the County Judge/Executive is absent. Any employee given the authority by fiscal court to sign checks should be added to the bank's records as an approved check signer, and sign their own name on the checks.

County Judge/Executive Jimmy Sizemore's Response: None

2006-09 Fiscal Court Should Pay Obligations Timely

During our audit testing, we noted that numerous invoices were submitted to the county for payment and not paid within 30 working days as required by KRS 65.140. Pursuant to KRS 65.140 all bills for goods or services shall be paid within 30 days of receipt of vendor's invoice except when payment is delayed because purchaser had made written disapproval of improper invoicing by the vendor or by the vendor's subcontractor.

We recommend that fiscal court comply with KRS 65.140 and ensure payment of outstanding obligations within 30 days.

County Judge/Executive Jimmy Sizemore's Response: None

2006-10 Fiscal Court Should Annually Review The Administrative Code

During our audit work, we examined the fiscal court order books for the fiscal year, and did not see that an annual review of the county's administrative code had been performed. KRS 68.005 requires an annual review by fiscal court during the month of June.

We recommend that fiscal court annually review the administrative code and enter any changes into the fiscal court order book as required by KRS 68.005.

County Judge/Executive Jimmy Sizemore's Response: None

LESLIE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2006
(Continued)

2006-11 Fiscal Court Should Monitor Ambulance Franchise Fee Collections

On July 10, 1995 the county entered into a lease agreement with a private company for the purpose of providing emergency ambulance service. This lease agreement was terminated on June 30, 1998 and another company signed a new lease on July 30, 1998. The terms of both leases stipulate that the private companies must pay the fiscal court \$500 per month for consideration of the lease equipment and property. Delinquent payments totaled \$24,000 for the prior provider and \$18,000 for the second provider as of June 30, 2003. Neither private company's obligation of payment due has been exonerated by fiscal court action. In addition, there were no written procedures related to the collection of delinquent payments. In the current lease agreement, signed November 26, 2003. The payment to fiscal court is to be \$25,000 over a four-year period. Delinquent payments at June 30, 2006 total \$16,146 for the new provider.

We recommend the fiscal court review the terms of the agreement and the status of the amount owed the county according to the lease terms and adopt written procedures for the collection of delinquent payments, and pursue payment from these companies, if necessary.

County Judge/Executive Jimmy Sizemore's Response: None

2006-12 The Fiscal Court Should Prepare Accurate Financial Records And Approve All Necessary Transactions

During our audit testing, we noted the following:

- The Fiscal Court did not submit a balanced budget and budget amendments were not recorded correctly
- The encumbrance listing was incorrect at year end
- Account codes used were not consistent with the quarterly reports
- Expenditures were not charged to the correct account code and fund
- The Fiscal Court did not include all debt on the quarterly financial report
- The Fiscal Court did not approve all inter-fund transfers

The LGED Fund revenue was originally budgeted to be \$4,841,777 and the expenditures were originally budgeted to be \$4,866,407. Revenues were under-budgeted by \$24,630. The county's budget amendment #5 included the increases in the prior year carryovers, but did not include the decreases. These changes in revenue were not recorded on the county's quarterly report. However, the increases in expenditures were recorded.

The encumbrances listed at June 30 were not always recorded correctly. One invoice dated June 15, 2006 in the amount of \$35,700 was not included on the encumbrance listing as of June 30, 2006. The invoice was for the repair of the chiller in the courthouse, but was posted incorrectly to the Jail Renovations account. Also, there was one invoice for services received after June 30, 2006, but was included on the encumbrance listing as of June 30, 2006 in the amount of \$51,499.

Account numbers used on the purchase orders and the detail general ledger were not consistent with the account numbers used on the quarterly financial reports. The account numbers used in the Local Government Economic Development Fund in the detail general ledger excel spreadsheet varied with the account numbers used on the quarterly reports.

During expenditure testing, we noted five instances where the incorrect account number or fund was used to record the transactions.

LESLIE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2006
(Continued)

2006-11 The Fiscal Court Should Prepare Accurate Financial Records And Approve All Necessary Transactions (Continued)

The Fiscal Court did not include all debt on the quarterly financial report. The only debt included was bonds issues. Additional notes and leases were not included.

We recommend the following:

- Fiscal court submit a balanced budget, and all budget amendments be recorded completely and correctly.
- Fiscal court review invoices closely at year-end to correctly determine encumbrances. If an invoice is for goods or services received before July 1, but unpaid at that time, then it should be recorded an encumbrance at year-end.
- Account numbers used on the purchase orders and the detail general ledger be consistent with the account numbers used on the quarterly financial reports as required by the uniform system of accounting prescribed by the state local finance officer.
- Fiscal court reviews the account numbers and funds used to record transactions so the quarterly financial report accurately reflects the activities of the county.
- Fiscal court includes all debt on the Quarterly Financial Report.
- Inter-fund transfers should be approved by fiscal court.

County Judge/Executive Jimmy Sizemore's Response: None

2006-13 The Fiscal Court Did Not Expend Thirty-Percent Of LGEA Funds On the Coal Haul Road System As Required By KRS 42.455

KRS 42.455 requires that thirty-percent of all moneys in the Local Government Economic Assistance (LGEA) Fund be spent on the coal haul road system. The LGEA revenues totaled \$1,769,940. Only \$150,859 was spent on the coal haul road system, representing 9% of total funds spent.

We recommend that the county budget and expend at least thirty-percent of the LGEA funds on the required coal haul road system.

County Judge/Executive Jimmy Sizemore's Response: None

2006-14 The Fiscal Court Did Not Reconcile The Balances Of Projects In Progress In The Local Government Economic Development Fund With The Ending Cash Balance

The purpose of the Local Government Economic Development Fund (LGED) is to account for projects funded by Local Government Economic Development funds. In the past, advances of these funds were made, however, grants received in the current fiscal year were on a reimbursement basis. The cash balance of this fund as of June 30, 2006 was \$1,708,615. In our review of LGED grants, we noted that requests for reimbursements included expenditures from other funds with no evidence of reimbursement by the LGED. In our analysis of current projects, we could find only \$35,020 in outstanding projects. When we inquired about a reconciliation of the outstanding projects, we were told that none existed.

We recommend the Fiscal Court prepare a reconciliation of outstanding projects to the cash balance and any funds in excess be investigated and transferred to the appropriate fund, if applicable.

County Judge/Executive Jimmy Sizemore's Response: None

LESLIE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2006
(Continued)

2006-15 Fiscal Court Should Request All Investment Statements And Monitor Their Activity

The county has many investment accounts that are not included on the quarterly financial statements. During the course of approximately six weeks of fieldwork, the auditors periodically discovered new accounts, even one on the last day of fieldwork, July 6, 2007. The auditors were previously aware of a few investment accounts and inquired of other county employees beginning on the first day of fieldwork. As of July 6, 2007 there were 12 additional accounts discovered that were not included on the quarterly financial statements. Ten of these accounts had activity during the year. None of the transactions were recorded on the quarterly financial statements.

We recommend the county request all statements from these financial institutions on a regular basis and monitor their activity. We also recommend that these transactions be recorded on the county's quarterly financial statements.

County Judge/Executive Jimmy Sizemore's Response: None

C. FEDERAL AWARD FINDINGS

2006-16 Fiscal Court Did Not Maintain Documentation of FEMA Grant Expenditures

Federal Program: CFDA# 97.036 – Public Assistance Grants

Federal Agency: Department of Homeland Security

Pass-Through Agency: Commonwealth of Kentucky

Compliance: All applicable areas

Amount of Questioned Costs: \$849,900

The County received advance grant funds from FEMA and the Commonwealth of Kentucky for repair costs under FEMA major disasters designated 1407-DR, 1454-DR, 1475-DR and 1523-DR, with funding provided under Public Assistance Grants, CFDA 97.036. The grant agreements specify all backup documentation and cost information is to be maintained in the County's files. The agreements further state that advance funds not supported by audit or other federal or state review are subject to return to the Commonwealth of Kentucky within forty-five days upon request of the Governor's authorized representative.

We reviewed individual project files, which revealed questioned costs totaling \$849,900, because no documentation existed concerning the disposition of the funds received. Additionally, in the audits for FYE 2004 and 2005, the Fiscal Court did not maintain adequate documentation of FEMA grant expenditures resulting in questioned costs of \$604,308 and \$318,369, respectively. In each of these two audits, we recommended the Fiscal Court contact the Kentucky Department of Military Affairs, Division of Emergency Management and notify them of these audit findings and questioned costs to determine if funds will be required to be refunded. As of the date of this audit report, these questioned costs have not been resolved.

We recommend the County carefully review all future grant agreements and maintain records required. Due to the amount of grant funding received in the county, we also recommend the County hire a grants management administrator to coordinate, report, and maintain records on all grant activity for the County. Furthermore, we are referring this finding to the Kentucky Department of Military Affairs, Division of Emergency Management.

County Judge/Executive Jimmy Sizemore's Response: Although this all occurred under a previous administration, we are in the process of completing the record to satisfy OMB CIRCULAR A-133. I have also taken action and put in place procedures to prevent this from occurring again.

LESLIE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2006
(Continued)

D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

- 2005-01 - Fiscal Court Should Improve Policies and Procedures Related To The Schedule Of Expenditures of Federal Awards
- 2005-02 - The Fiscal Court Should Maintain Adequate Documentation For All Expenditures
- 2005-03 - County Employees Used The County Judge/Executive's Credit Card
- 2005-04 - The Fiscal Court Did Not Provide Adequate Oversight Or Monitoring Of The Code Of Ethics
- 2005-05 - The Fiscal Court Purchased Services From Related Parties
- 2005-06 - The Fiscal Court Should Approve Employee Pay Rates
- 2005-07 - The County Did Not Provide Adequate Oversight Or Monitoring Of Financial Activities
- 2005-08 - The County Does Not Maintain Proper Documentation For Capital Assets
- 2005-09 - The Fiscal Court Did Not Provide Adequate Oversight Or Monitoring Of Internal Control
- 2005-10 - The Fiscal Court Should Maintain Adequate Documentation For All Personnel Files
- 2005-11 - The Fiscal Court Should Pay Obligations Timely
- 2005-12 - The Fiscal Court Should Annually Review the Administrative Code
- 2005-13 - The Fiscal Court Should Monitor Ambulance Franchise Fee Collections
- 2005-14 - The County Did Not Maintain Documentation Of FEMA Grant Expenditures

All prior year comments listed above were repeated.

LESLIE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

LESLIE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2006

Federal Grantor		
Program Title	Pass-Through	
<u>Grant Name (CFDA #)</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture		
Passed through KY River Area Development District:		
USDA Cash-in-Lieu of Commodities Program (CFDA #10.570)	Unavailable	\$ 35,569
Total U.S. Department of Agriculture		<u>35,569</u>
U.S. Department of Commerce		
Passed through Other Agencies:		
National Oceanic and Atmospheric Administration Passed Through the Center for Rural Development PRIDE Grants (CFDA #11.469)	SG05-05	59,750
Total U.S. Department of Commerce		<u>59,750</u>
U.S. Department of Health and Human Services		
Passed through KY River Area Development District:		
Title III B,C,F Grant and Homecare Program (CFDA #93.044, 93.045, 93.046)	Unavailable	78,076
Total U.S. Department of Health and Human Services		<u>78,076</u>
U.S. Department of Homeland Security		
Passed through Commonwealth of Kentucky:		
Department for Military Affairs		
Public Assistance Grants March 2002 Flooding (CFDA #97.036)	FEMA-1407-DR-KY	410,862
Public Assistance Grants March 2003 Flooding (CFDA #97.036)	FEMA-1454-DR-KY	212,832
Public Assistance Grants June 2003 Flooding (CFDA #97.036)	FEMA-1475-DR-KY	34,712
Public Assistance Grants June 2004 Flooding (CFDA #97.036)	FEMA-1523-DR-KY	191,495
Emergency Management Performance Grants (CFDA # 97.042)	M-0543535	1,757
Total U.S. Department of Homeland Security		<u>851,658</u>
TOTAL FEDERAL AWARDS		<u><u>\$ 1,025,053</u></u>

LESLIE COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2006

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Leslie County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



PEERCY AND GRAY, PSC

Certified Public Accountants

2300 Hurstbourne Village Drive, Suite 500

Louisville, Kentucky 40299

Phone: (502) 493-1090

FAX: (502) 493-7231

The Honorable Kenneth R. Witt, Former Leslie County Judge/Executive
The Honorable Jimmy Sizemore, Leslie County Judge/Executive
Members of the Leslie County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards**

We were engaged to audit the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Leslie County, Kentucky, as of and for the year ended June 30, 2006, and have issued our report thereon dated July 6, 2007, wherein, we disclaimed an opinion on the financial statements as explained in the independent auditor's report.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Leslie County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Leslie County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items: 2006-01, 2006-02, 2006-03, 2006-04, 2006-05, 2006-06, 2006-07, 2006-08, 2006-11, 2006-12, 2006-14, and 2006-15.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider all of them to be material weaknesses.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Leslie County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items: 2006-09, 2006-10, and 2006-13.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Percy and Gray, PSC".

Peercy and Gray, PSC
Certified Public Accountants

July 6, 2007

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



PEERCY AND GRAY, PSC

Certified Public Accountants

2300 Hurstbourne Village Drive, Suite 500

Louisville, Kentucky 40299

Phone: (502) 493-1090

FAX: (502) 493-7231

The Honorable Kenneth R. Witt, Former Leslie County Judge/Executive
The Honorable Jimmy Sizemore, Leslie County Judge/Executive
Members of the Leslie County Fiscal Court

Report On Compliance With Requirements Applicable To Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133

Compliance

We were engaged to audit the compliance of Leslie County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Leslie County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Leslie County's management.

As further outlined in finding 2006-16, we were unable to obtain sufficient documentation supporting the compliance of Leslie County, Kentucky, with its Public Assistance Grants CFDA# 97.036, major program regarding all applicable compliance requirements, nor were we able to satisfy ourselves as to Leslie County's compliance with those requirements by other auditing procedures.

Because of the audit scope limitation described in the preceding paragraph and in finding 2006-16, our work was not sufficient to enable us to express and we do not express an opinion on Leslie County's compliance with requirements applicable to the Public Assistance Grants (CFDA# 97.036) major program.

Internal Control Over Compliance

The management of Leslie County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Leslie County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Leslie County's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 2006-16.

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider item 2006-16 to be a material weakness.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Percy and Gray, PSC". The signature is written in a cursive, flowing style.

Peercy and Gray, PSC
Certified Public Accountants

July 6, 2007

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

CASEY COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2006**

CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

LESLIE COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2006

The Leslie County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance and Development Programs was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


Jimmy Sizemore
County Judge/Executive


Mack Muncy
County Treasurer